

Message Text

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SUBJECT: THE PRESIDENT'S NATIONAL ENERGY PLAN AND THE
U.S. RESPONSE TO CHANGING ENERGY ECONOMICS
(JUNE 1978) - HENOCHE SPEECH TO IPA

REF: JAKARTA 6988

1.(A) I WELCOME AND APPRECIATE THIS OPPORTUNITY TO MEET
WITH THE INDONESIAN PETROLEUM ASSOCIATION IN JAKARTA TO
DISCUSS ISSUES OF OVERWHELMING IMPORTANCE TO US ALL. THE
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UNITED STATES AND INDONESIA ARE LINKED NOT ONLY BY ENERGY
BUT BY COMMON INTERESTS IN THE PACIFIC BASIN AND INCREASED
ECONOMIC OPPORTUNITIES FOR OUR PEOPLES. WISE AND PRUDENT
USE BY EACH NATION OF ITS ENERGY RESOURCES, NOW AND IN
THE FUTURE, IS A MAJOR ELEMENT IN ASSURING THE LONG-TERM
WELFARE OF ALL. INDONESIA, AS A MAJOR PRODUCER OF
PETROLEUM, GAS AND OTHER RESOURCES IS AN IMPORTANT AND

CONSTRUCTIVE CONTRIBUTOR TO A VIABLE AND EXPANDING WORLD ECONOMY. I ALSO APPRECIATE THE FRUITFUL COOPERATION BETWEEN THE GOVERNMENT OF INDONESIA, PERTAMINA AND THE PRIVATE AMERICAN COMPANIES. WE LOOK TO THE CONTINUATION AND DEEPENING OF INDONESIAN-AMERICAN INTERESTS AND JOINT EFFORTS IN THE ENERGY FIELD.

1. (B) BEFORE PROCEEDING TO DISCUSS THE MAJOR ELEMENTS AND PROBLEMS IN THE FORMULATION OF U.S. ENERGY POLICY, I WILL REFER IN PASSING TO A DECISION OF MAJOR INTEREST TO BOTH THE U.S. AND INDONESIA. THIS CONCERNS THE PROJECT TO SHIP LNG FROM THE ARUN FIELD IN SUMATRA TO SOUTHERN CALIFORNIA. ALTHOUGH I AM NOT IN A POSITION TO DISCUSS THE OUTSTANDING ISSUES IN THIS CASE NOW BEFORE OUR REGULATORY BODIES, I CAN ASSURE YOU THAT WE ARE EARNESTLY SEEKING RESOLUTION.

1. (C) ENERGY IS A PERVASIVE COMMODITY AND ITS COST AND AVAILABILITY IS PARTICULARLY CRITICAL TO AN INDUSTRIALIZED ECONOMY SUCH AS THE UNITED STATES. THUS THE PRESIDENT'S NATIONAL ENERGY PLAN (NEP) IMPACTS ON EVERY MARKET SECTOR AND ON EVERY ONE OF OUR CITIZENS. IT ALSO CAN BE SAID THAT BECAUSE OF THE INTERRELATIONSHIP OF WORLD ECONOMIES, U.S. ENERGY POLICY WILL IMPACT ON OTHER NATIONS AS WELL. JUST AS THE HEALTH OF THE U.S. ECONOMY AFFECTS THE ECONOMIES OF OTHER NATIONS, THE SUCCESS OR
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LACK OF SUCCESS IN DEVELOPING A SATISFACTORY U.S. ENERGY POLICY WILL BE REFLECTED IN THE FUTURE STATUS OF THE WORLD ENERGY SITUATION.

2. THE PEOPLE OF THE UNITED STATES HAVE BEEN ACCUSTOMED TO CHEAP ENERGY, AND UNTIL THE QUADRUPLING OF WORLD OIL PRICES IN 1973-74, CONSUMPTION OF ENERGY INCREASED AT AN AVERAGE ANNUAL RATE OF 3.2 PERCENT (FROM 1948 TO 1973).
THE

CONSUMPTION OF PETROLEUM AND NATURAL GAS INCREASED AT RATES OF 4.2 AND 6.2 PERCENT RESPECTIVELY, WHILE CONSUMPTION OF COAL, THE MOST ABUNDANT FUEL IN THE U.S., ACTUALLY DECLINED.

3. SINCE WORLD WAR II THE STOCK OF INDUSTRY'S CAPITAL INVESTMENTS, ELECTRIC POWER PLANTS, AND CONSUMER GOODS PLACED AN INORDINATE DEMAND ON PETROLEUM AND NATURAL GAS. FOR THE MOST PART U.S. SUPPLIES OF PETROLEUM AND NATURAL GAS APPEARED TO BE ADEQUATE TO SATISFY THE MARKET. SIMULTANEOUSLY CONCERNS REGARDING THE ENVIRONMENT, PARTICULARLY AIR QUALITY STANDARDS PLACED MORE EMPHASIS

ON THE USE OF RELATIVELY CLEANER FUELS, TO THE FURTHER
DETRIMENT OF COAL. THE OPPORTUNITY TO IMPORT LOW COST
PETROLEUM ALSO STIMULATED DEMAND. WELL, THAT PHASE OF
U.S. ECONOMIC LIFE AND THE LIFE STYLES SUPPORTED BY CHEAP
ENERGY IS OVER. BUT BECAUSE OF THE PLURALISTIC CHARACTER
AND SIZE OF OUR ECONOMY THE TRANSITION AWAY FROM PETROLEUM
AND NATURAL GAS CANNOT BE MADE ABRUPTLY. THE TREND TOWARD
INCREASED IMPORTS SINCE 1973 INDICATES THE INABILITY "TO
REVERSE ENGINES QUICKLY AND HEAD INTO ANOTHER COURSE."
BUT THERE SHOULD BE NO DOUBT THAT A NEW COURSE HAS BEEN
CHARTED, AND IN FACT THERE ARE SOME POSITIVE INDICATIONS
THAT U.S. CONSUMPTION PATTERNS ARE CHANGING. THE
PRINCIPLES THE PRESIDENT ARTICULATED IN THE NATIONAL
ENERGY PLAN WILL CHANGE THE U.S. ENERGY CONSUMPTION
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HABITS AND THE AMERICAN PEOPLE ARE DISPLAYING THE CAPACITY
TO MAKE ADJUSTMENTS TO THE NEW ENERGY ECONOMIC REALITIES.

4. AMONG THE PRINCIPLES WHICH SHAPE ENERGY POLICY ARE:

- THAT ENERGY PROBLEMS IN THE U.S. MUST BE SOLVED
IN A MANNER THAT IS EQUITABLE TO ALL REGIONS,
SECTORS, AND INCOME GROUPS;
- THAT ENERGY GROWTH MUST BE RESTRAINED THROUGH
CONSERVATION AND IMPROVED ENERGY EFFICIENCY;
- THAT ENERGY PRICES SHOULD REFLECT THE TRUE
REPLACEMENT COST OF ENERGY;
- THAT RESOURCES IN PLENTIFUL SUPPLY MUST BE USED
MORE WIDELY AND THE USE OF THOSE IN SHORT SUPPLY
SHOULD BE MODERATED; AND FINALLY
- THAT NONCONVENTIONAL SOURCES OF ENERGY MUST BE
VIGOROUSLY EXPANDED.

5. SPECIFICALLY, THE NATIONAL ENERGY PLAN CALLS FOR THE
ACHIEVEMENT OF SEVEN GOALS BY 1985. I'LL DESCRIBE THE
GOALS AND COMMENT ON THE CURRENT ENERGY TRENDS RELATION-
SHIP TO SUCH GOALS.

- A KEY GOAL IS THAT THE GROWTH RATE OF U.S.
ENERGY DEMAND WILL BE REDUCED TO LESS THAN
2 PERCENT.
 - IT SHOULD BE NOTED THAT ENERGY DEMAND FROM 1973
THROUGH 1977 INCREASED AT AN AVERAGE ANNUAL
RATE OF .4 PERCENT EVEN THOUGH REAL GNP
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GROWTH IN THAT PERIOD INCREASED 1.9 PERCENT. THIS MAY BE A POOR SAMPLING SINCE 1974 AND 1975 WERE RECESSION YEARS DURING WHICH TIME ENERGY DEMAND DECLINED ALONG WITH ECONOMIC ACTIVITY. HOWEVER, IT IS EVIDENT THAT THE INDUSTRIAL SECTOR HAS REDUCED ITS CONSUMPTION OF ENERGY PER DOLLAR OF OUTPUT BY 10 TO 15 PERCENT OVER THE LAST FOUR YEARS. A COMPARISON OF THE GROSS ENERGY PER DOLLAR OF GNP AVERAGE FOR THE FOUR YEAR PERIOD BEFORE AND AFTER 1973 SHOW POST 1973 REDUCTION OF OVER 4 PERCENT IN THE AMOUNT OF ENERGY CONSUMER PER GNP DOLLAR.

IT MAY BE PREMATURE TO EXPECT THAT THE GOAL OF A 2 PERCENT ENERGY DEMAND GROWTH RATE GOAL HAS BEEN ACHIEVED, BUT IT SEEMS APPARENT THE ENERGY CONSUMPTION TRENDS ARE AT LEAST HEADING IN THE RIGHT DIRECTION

-- ANOTHER GOAL IS TO REDUCE GASOLINE CONSUMPTION 10 PERCENT BY 1985.

- THE TRANSPORTATION SECTOR USES ONE-FOURTH OF U.S. ENERGY. HISTORICALLY, (1948-1973) THE TRANSPORTATION SECTOR'S DEMAND FOR PETROLEUM INCREASED AT AN AVERAGE ANNUAL GROWTH RATE OF 4.3 PERCENT. DURING THE LAST FOUR YEARS THE GROWTH RATE HAS DECLINED TO 1.6 PERCENT. A COMBINATION OF SMALLER AND MORE EFFICIENT AUTOMOBILES APPEARING IN GREATER NUMBERS ON

U.S. HIGHWAYS AND GASOLINE PRICE INCREASES MAY BE THE REASON FOR THE REDUCED CONSUMPTION RATE.

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-- A GOAL OF INSULATING 60 PERCENT OF AMERICAN HOMES AND ALL NEW BUILDINGS.

- THERE ARE APPROXIMATELY 75 MILLION HOUSEHOLDS IN THE U.S. AND HISTORICALLY, THE HOUSEHOLD AND COMMERCIAL SECTOR, EXCEPT FOR ELECTRIC

POWER GENERATION, HAS BEEN THE MOST RAPID INCREASING ENERGY CONSUMER; AN APPROXIMATE AVERAGE ANNUAL GROWTH RATE OF 3.7 PERCENT. SINCE 1973 THIS RATE HAS DECLINED TO 0.4 PERCENT WITH VIRTUALLY ALL THE GROWTH OCCURRING IN THE USE OF ELECTRIC POWER.

THE INHERENT ECONOMIC WISDOM OF CONSUMERS HAS RESULTED IN A MAJOR EFFORT ON THE PART OF HOMEOWNERS TO REDUCE THEIR CONSUMPTION OF ENERGY. THE DEMAND FOR INSULATION MATERIALS HAS GENERATED A SIGNIFICANT EXPANSION OF THAT INDUSTRY TO MEET THE GROWING MARKET DEMAND. PEOPLE MOTIVATED BY INCREASED FUEL BILLS ARE LEARNING TO ADJUST AND ACCOMMODATE TO LESS HEATING AND COOLING. OTHER CONSERVATION EFFORTS WHICH RELY ON CONSUMER RESPONSE ARE STRINGENT EFFICIENCY STANDARDS FOR MAJOR ELECTRIC APPLIANCES WITH PROMINENT NOTATION OF THE ENERGY EFFICIENCY RATINGS FOR CONSUMER GUIDANCE, INCENTIVES FOR GENERATION AND UTILITY RATE REFORMS TO LEVEL OUT ELECTRIC GENERATION PEAK LOADS TO STIMULATE CHANGE IN ELECTRIC POWER USE PATTERN.

-- A GOAL OF USING SOLAR ENERGY IN MORE THAN TWO AND UNCLASSIFIED

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A HALF MILLION HOMES.

- THIS EFFORT HAS CHANGED ATTITUDES TOWARDS ARCHITECTURAL DESIGN TO TAKE ADVANTAGE OF DIRECT SOLAR HEAT BY CONTROLLING THE NATURAL SOURCES OF ENERGY DURING SEASONAL CHANGES. THE SHIFT TO USING SOLAR HEAT HAS BEEN PRINCIPALLY FOR WATER HEATING. IT IS ESTIMATED THAT 1977 SALES OF SOLAR COLLECTORS WILL

BE APPROXIMATELY 12 MILLION SQUARE FEET. THREE TIMES THE SALES IN 1976. SUCH SALES HAVE BEEN STIMULATED BY THE ADMINISTRATION PROGRAM TO SHARE IN THE COST OF SUCH FACILITIES THROUGH TAX CREDITS.

-- THE GOAL OF INCREASING U.S. COAL PRODUCTION BY MORE THAN TWO-THIRDS TO OVER A BILLION TONS BY 1985.

- IN 1977 U.S. COAL PRODUCTION WAS 627 MILLION TONS, DOWN FROM THE 679 MILLION

TONS IN 1976, PRINCIPALLY DUE TO A 109 DAY COAL STRIKE WHICH AFFECTED PART OF U.S. PRODUCTION. HOWEVER, U.S. COAL CONSUMPTION SINCE 1973 HAS INCREASED NEARLY 2 PERCENT PER YEAR, AFTER A NEGATIVE GROWTH RATE OF 0.5 PERCENT OVER THE LAST 25 YEARS (1948-73).

-- A GOAL OF PLACING A BILLION BARRELS OF OIL IN STORAGE FOR PROTECTION AGAINST FUTURE EMBARGOES.

- THE CUMULATIVE DELIVERIES TO THE U.S. STRATEGIC PETROLEUM RESERVE PROGRAM IS APPROXIMATELY 21 MILLION BARRELS; THE RESERVE WILL INCREASE TO A YEAREND TARGET OF 125 MILLION BARRELS. A
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TARGET OF 250 MILLION BARRELS SHOULD BE ACHIEVED BY MID-YEAR 1979.

6. IN ADDITION TO CONSERVATION, THE ENERGY PLAN PROPOSES TO STIMULATE ENERGY PRODUCTION THROUGH A PRICING POLICY WHICH WOULD ALLOW THE PRICE OF NEWLY DISCOVERED OIL TO RISE OVER THREE YEARS, TO THE 1977 WORLD MARKET PRICES, WITH ALLOWANCES FOR INFLATION. THIS EFFORT TO EXPAND PRODUCTION WITH OTHER PROPOSALS SHOULD HELP US TO ACHIEVE OR AT LEAST TO HEAD TOWARDS THE SEVENTH GOAL.

-- CUT OIL IMPORTS TO 6 MILLION BARRELS PER DAY. IT IS ESTIMATED THAT THIS WOULD BE ONE-HALF OF THE LEVEL OF IMPORTS IF THE NEP WAS NOT ADOPTED.

7. THE ENERGY PLAN ALSO PROPOSES A CRUDE OIL EQUALIZATION TAX--A TAX ON THE PRODUCTION OF DOMESTIC OIL, PHASED-IN OVER THREE YEARS AND EQUAL TO THE DIFFERENCE BETWEEN THE PRESENT CONTROLLED DOMESTIC PRICE AND WORLD PRICE. THE

PRICING AND TAX POLICY WOULD STIMULATE NEW DEVELOPMENT AND ALSO REDUCE DEMAND BY ENCOURAGING EFFICIENCY.

8. THERE IS EVIDENCE THAT FUEL SWITCHING AWAY FROM OIL AND NATURAL GAS IS OCCURRING AT THIS TIME IN THE GENERATION OF ELECTRIC POWER. DEMAND FOR COAL FROM 1973 TO 1977 IN THIS SECTOR IS INCREASING AT A FASTER RATE (4.3 PERCENT) THAN FOR PETROLEUM (3.5 PERCENT). A REVERSAL OF THE 1948 TO 1973 TREND. IN ADDITION, NUCLEAR POWER GENERATED BY LIGHT-WATER REACTORS (LWR) IN 1977 PROVIDED 12 PERCENT OF U.S. ELECTRIC POWER NEEDS OR 3.5 PERCENT OF OUR TOTAL ENERGY NEEDS. IT IS THE OBJECTIVE OF THE ADMINISTRATION TO EXPAND THE AVAILABILITY OF
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NUCLEAR POWER AND OVERCOME SOME OF THE CONSTRAINTS IMPOSED ON NUCLEAR PLANT SITING AND UTILIZATION. HIGH PRIORITY ITEMS ARE STREAMLINING LICENSING PROCEDURES AND REDUCING THE LEAD TIME BETWEEN PLANNING AND OPERATIONS, STRENGTHENING SAFETY STANDARDS AND INSPECTION PROCEDURES, STANDARDIZING DESIGNS AS MUCH AS POSSIBLE, AND ASSURING ADEQUATE STORAGE FACILITIES FOR SPENT FUEL.

9. THE NATIONAL ENERGY PLAN ALSO PLACES EMPHASIS ON NUCLEAR NONPROLIFERATION BY PLACING GREATER EMPHASIS ON ALTERNATIVES TO THE BREEDER-REACTOR TECHNOLOGY.

10. THUS, THE NATIONAL ENERGY PLAN APPLIES ECONOMIC INCENTIVES AND REGULATORY MEASURES TO REDUCE ENERGY GROWTH AND DEPENDENCE ON FOREIGN OIL.

-- CONSERVATION IS EMPHASIZED IN ORDER TO REDUCE CONSUMPTION THROUGH A MORE ENERGY-EFFICIENT CAPITAL STOCK AND CONSUMER PRODUCTS.

-- CRUDE OIL TAXES AND NATURAL GAS PRICING PROVISIONS ACCOMPLISH THE DUAL OBJECTIVES OF STIMULATING EXPLORATION AND DEVELOPMENT OF NEW OIL AND GAS SUPPLIES AND REDUCING CONSUMPTION TO MANAGEABLE LEVELS, AND

-- INCENTIVES AND REGULATORY AUTHORITY IS APPLIED TO ENCOURAGE MARKET SHIFTS TO COAL AND COMMERCIAL USE OF RENEWABLE TECHNOLOGIES.

11. HOWEVER, A COMPREHENSIVE APPROACH TO THE TASK OF SLOWING THE RATE OF GROWTH OF FOREIGN OIL DEPENDENCE AND MEETING U.S. ENERGY NEEDS BEYOND 1958 IS ESSENTIAL. THEREFORE, A WIDE RANGE OF

TECHNOLOGIES, TO BE APPLIED TO THE VAST NUMBER OF ALTERNATIVES.

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NATIVE ENERGY SOURCES AVAILABLE IN THE U.S., IS PLANNED AS WELL.

12. FOR THE PERIOD BEYOND 1985, THE U.S. R&D STRATEGY HAS THE FOLLOWING OBJECTIVES:

- TO ACCELERATE THE DEVELOPMENT OF NEW PROCESSES FOR

PRODUCING SYNTHETIC FUELS FROM COAL AND EXTRACTING
OIL FROM SHALE;

- TO INCREASE ENERGY USE FROM GEOTHERMAL, SOLAR AND
WASTE HEAT; AND

- TO DEVELOP ESSENTIALLY INEXHAUSTIBLE RESOURCES
PRINCIPALLY THROUGH FUSION; AND
SOLAR ELECTRIC ENERGY.

13. TO MEET THOSE OBJECTIVES AND OUR COMMITMENT TO FUTURE
GENERATIONS WILL REQUIRE SUBSTANTIAL GOVERNMENT AND PRI-
VATE INDUSTRY INVESTMENTS. THE U.S. FEDERAL BUDGET FOR
ENERGY RESEARCH AND DEVELOPMENT HAS INCREASED FROM \$672
MILLION IN 1973 TO WELL ABOVE \$3 BILLION IN 1978; A FIVE-
FOLD INCREASE IN A PERIOD OF FIVE YEARS.

14. THE BUDGET FOR SOLAR ENERGY R&D, FOR EXAMPLE, HAS
INCREASED FROM \$4 MILLION IN 1973 TO ABOUT \$225 MILLION
IN 1978. SIMILARLY, THE CONSERVATION BUDGET HAS INCREASED
FROM \$32 MILLION TO \$470 MILLION AND MAY EXCEED ONE
BILLION DOLLARS IN 1979.

15. INTEREST IN DEVELOPING NEW ENERGY TECHNOLOGIES IS ALSO
SHARED BY OTHER INDUSTRIALIZED NATIONS. A RECENTLY
COMPLETED, BUT NOT YET RELEASED, IEA REVIEW OF THE ENERGY
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RESEARCH, DEVELOPMENT AND DEMONSTRATION PROGRAMS OF MEMBER
COUNTRIES SHOWS THAT SINCE 1974 THE AGGREGATE R&D EFFORT,
IN REAL TERMS, HAS NEARLY DOUBLED.

16. I WOULD LIKE TO DESCRIBE SOME OF THE NEW MAJOR POLICY
R&D INITIATIVES THAT ARE UNDER CONSIDERATION.

17. THE R&D INITIATIVES FALL IN FOUR SUPPLY CATEGORIES--
LIQUID FUELS, UNCONVENTIONAL GAS, ADVANCED COAL TECH-
NOLOGIES, AND RENEWABLE TECHNOLOGIES. THE PURPOSE OF

THE R&D EFFORTS IS TO BUILD A NATIONAL CAPABILITY TO
ULTIMATELY COMMERCIALIZE SUCH ENERGY SUPPLY TECHNOLOGIES.

1. LIQUIDS

- IN THE AREA OF LIQUID FUELS WE ARE LOOKING AT
ACCELERATING SUPPLY FROM SYNTHETIC LIQUIDS AND
FROM ENHANCED OIL RECOVERY.

- IT SHOULD BE NOTED THAT THE U.S. RESOURCES OF
OIL SHALE, COAL, AND BIOMASS POTENTIALLY COULD

YIELD MORE LIQUID FUEL THAN CAN BE PRODUCED FROM ALL THE WORLD'S KNOWN OIL RESERVOIRS. BUT THESE POTENTIALLY-MASSIVE RESOURCES NOW YIELD VERY LITTLE FUEL. THE EXISTING TECHNOLOGIES AVAILABLE TO UTILIZE THESE RESOURCES ARE TOO COSTLY, YIELDING PRODUCTS WHICH RANGE FROM TWO TO FIVE TIMES THE CURRENT LANDED PRICE OF IMPORTED OIL. THE COMMERCIAL-SCALE FACILITIES COST OVER A BILLION DOLLARS EACH, AND HAVE LEAD TIMES FROM PLANNING TO PRODUCTION WHICH RUN FROM 7 TO 12 YEARS.

- BY THE TIME MANY OF SUCH MAJOR NEW PLANTS COULD BE ON LINE, ANTICIPATED RISING OIL PRICES COULD

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MAKE SOME OF THESE SYNTHETIC FUELS COMPETITIVE. HOWEVER, BECAUSE OF THE UNCERTAINTY OF FUTURE OIL PRICES AND GOVERNMENT ACTIONS, OUR PRIVATE SECTOR APPEARS UNWILLING TO ACCEPT THE SUBSTANTIAL TECHNICAL AND ECONOMIC RISKS THAT SYNTHETIC PRODUCTION OF LIQUIDS WOULD ENTAIL.

- THEREFORE THE POLICY INITIATIVES UNDER CONSIDERATION ARE DESIGNED TO ASSIST PRIVATE INDUSTRY IN TAKING SUCH RISKS. SPECIFICALLY THESE POLICY INITIATIVES INCLUDE:

- A REQUIREMENT THAT A PERCENTAGE OF ALL LIQUIDS USED IN THE UNITED STATES BE FROM SYNTHETICS BY 1990;

- SPECIAL TAX AND REGULATORY INCENTIVES FOR SHALE OIL;

- GOVERNMENT-FUNDED COMMERCIAL-SCALE SYNTHETIC FUEL PLANTS.

IN THE AREA OF ENHANCED OIL RECOVERY (EOR), THE INITIATIVES UNDER CONSIDERATION INCLUDE:

- GUARANTEED PRICES ABOVE WORLD MARKET LEVELS FOR EOR PROJECTS WHICH HAVE DEMONSTRATED ECONOMIC, TECHNICAL, AND ENVIRONMENTAL FEASIBILITY; AND,

- GUARANTEED LOANS FOR SMALL PRODUCERS OTHERWISE UNABLE TO OBTAIN FINANCING FOR EOR PROJECTS

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2. UNCONVENTIONAL NATURAL GAS

- CONVENTIONAL NATURAL GAS PRODUCTION PEAKED IN 1973 AT 22.6 TRILLION CUBIC FEET (TCF) OF NET MARKETED PRODUCTION, AND HAS SINCE DECLINED TO ABOUT 19 TCF. EVEN WITH NEW INCENTIVE PRICING AND PERHAPS EVENTUAL DEREGULATION, CONVENTIONAL PRODUCTION IN 1990 COULD DROP BELOW CURRENT LEVELS, AS THE RATE OF FINDING NEW GAS SUPPLIES IN THE UNITED STATES APPEARS TO BE DECLINING.

- THERE ARE FOUR SOURCES OF UNCONVENTIONAL NATURAL GAS WHICH HAVE THE POTENTIAL FOR PROVIDING ADDITIONAL GAS BY THE LATE 1980'S. THESE INCLUDE: GEOPRESSURIZED METHANE, GAS FROM TIGHT SANDS, DEVONIAN SHALE GAS, AND COAL BED METHANE. AS A GROUP, THE FOUR SOURCES HAVE A HIGH BUT VERY UNCERTAIN POTENTIAL ENERGY PAYOFF.

- THERE ARE TWO POLICY INITIATIVES UNDER CONSIDERATION IN THIS AREA. THE FIRST IS TO PROVIDE A PRICE INCENTIVE FOR UNCONVENTIONAL GAS RESOURCES, EITHER THROUGH DEREGULATION OR A HIGH CEILING PRICE, NEAR \$3.00/MCF. THE SECOND WOULD ACCELERATE RESOURCE EVALUATION AND TECHNOLOGY DEVELOPMENT BY SELECTIVE INCREASED LEVELS OF NEAR-TERM FEDERAL FUNDING.

3. ADVANCED COAL TECHNOLOGIES

- THREE ADVANCED COAL TECHNOLOGIES--FLUIDIZED BED COMBUSTION, AND A LOW AND MEDIUM BTU GASIFICATION-- COULD PLAY A SIGNIFICANT ROLE IN REPLACING OIL AND GAS IN THE INDUSTRIAL SECTOR SHOULD WORLD OIL

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PRICES RISE. THE COAL CONVERSION REGULATORY PROGRAM AND THE INDUSTRIAL OIL AND GAS USER TAX IN THE NATIONAL ENERGY PLAN PROVIDE STRONG INCENTIVES FOR DIRECT COAL USE PRIMARILY IN INDUSTRIAL BOILERS. HOWEVER, NEP INCENTIVES FOR COAL USE FOR NON-BOILER ENERGY NEEDS ARE LIMITED WITH ADDED ECONOMIC INCENTIVES, THESE ADVANCED

COAL TECHNOLOGIES COULD BEGIN TO EXPAND COAL USE INTO NON-BOILER MARKETS AND COULD ALLOW THE USE OF COAL-BASED TECHNOLOGIES IN ENVIRONMENTALLY TROUBLED AREAS.

- WE ARE CURRENTLY CONSIDERING POLICY INITIATIVES WHICH WOULD PROVIDE AN ADDITIONAL 10 PERCENT INVESTMENT TAX CREDIT AND A 5-YEAR DEPRECIATION FOR FLUIDIZED BED COMBUSTION AND LOW AND MEDIUM BTU GASIFICATION EQUIPMENT. THE FULL INCENTIVE WOULD BE AVAILABLE FROM NOW UNTIL 1983, AND WOULD DECLINE UNTIL IT ENDS IN 1986.

4. RENEWABLE TECHNOLOGIES

- THE WORLD'S HOPE FOR ENERGY TO SUSTAIN ECONOMIC GROWTH BEYOND THE YEAR 2000 RESTS IN LARGE MEASURE ON THE DEVELOPMENT OF RENEWABLE AND ESSENTIALLY INEXHAUSTIBLE SOURCES OF ENERGY. MANY DIVERSE SOLAR, GEOTHERMAL, BIOMASS AND OTHER TECHNOLOGIES ARE IN VARIOUS STAGES OF DEVELOPMENT.

18. AS STATED EARLIER, THE NEP INCLUDES A SOLAR TAX CREDIT SUPPORTED BY A FEDERALLY-FUNDED PUBLIC EDUCATION PROGRAM. THE IMPACT OF THIS TAX CREDIT, HOWEVER, WILL LIKELY BE LIMITED TO ACTIVE SOLAR SPACE AND WATER HEATING
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TECHNOLOGIES.

19. TO COMPLEMENT THE PROPOSED TAX CREDITS FOR SOLAR TECHNOLOGIES, SEVERAL PROGRAM INITIATIVES ARE BEING CONSIDERED WHICH INCLUDE GOVERNMENT PURCHASES OF WIND SYSTEM PROTOTYPES AND SMALL TURBOGENERATORS FOR "LOW-HEAD" HYDROELECTRIC GENERATION.

20. I WOULD LIKE TO POSE BEFORE YOU SOME OF THE MAJOR POLICY QUESTIONS WHICH WE WILL HAVE TO ADDRESS IN THE R&D AREA.

1. SHOULD THE U.S. GEAR ITS EFFORT TOWARD THE EXPECTATION OF AN EARLY DEPLETION OF CONVENTIONAL FUELS, AND LAUNCH A "CRASH EFFORT" IN FAVOR OF COAL, NUCLEAR, AND OTHER EXOTIC ENERGY SOURCES? OR DO WE BASE OUR PLANNING ON ENERGY MARKETS BEING SUSTAINED THROUGH MOST OF THE '80'S, AND THEREFORE STRETCH OUT OUR R&D PROGRAMS.

2. DO WE LAUNCH A BROAD-SCOPED R&D PROGRAM, ACROSS A RANGE OF TECHNOLOGIES AND RESOURCES, OR DO WE FOCUS

OUR APPROACH ON A NARROW FRONT?

3. GIVEN THE PROMINENT, IF NOT PREDOMINANT ROLE, WHICH THE U.S. PRIVATE SECTOR WILL HAVE, WHAT KIND OF FEDERAL SUPPORT SHOULD BE MADE AVAILABLE? SHOULD WE RELY ON MORE TRADITIONAL, LOW-EXPOSURE INSTRUMENTS SUCH AS LOAN GUARANTEES OR SHOULD WE USE MORE ACTIVE INCENTIVES SUCH AS PRICE SUPPORTS, DEBT OR EQUITY PARTICIPATION?

4. IN PROVIDING FEDERAL SUPPORT, SHOULD WE FOLLOW THE TRUST-FUND APPROACH, EAR-MARKING FUNDS IN ADVANCE AS WE DID IN OUR NATIONAL HIGHWAY PROGRAM? OR SHOULD WE FUND THE EFFORT FROM GENERAL REVENUES, THUS UNCLASSIFIED

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SUBJECTING THE PROGRAM TO THE ANNUAL BUDGETARY PROCESS?

21. THESE QUESTIONS DO NOT EXHAUST THE RANGE OF POLICY OPTIONS. BUT THEY GIVE YOU A FLAVOR OF THE DEBATE THAT CONTINUES ON NATIONAL ENERGY POLICY STRATEGY. THE DEBATE IN WASHINGTON IS HEALTHY, THOUGH FRUSTRATING. BUT, AS I HAVE INDICATED THE ISSUES OF ENERGY AVAILABILITY AND COSTS ARE NOT LOST TO THE U.S. CONSUMER. FOR WE ARE SEEING THE VERY EARLY SIGNS OF CHANGE, A CHANGE FOR THE BETTER, IN THE U.S. ENERGY SUPPLY-DEMAND BALANCE.

22. ANY OPTIMISM HOWEVER, MUST BE TEMPERED WITH THE CONCERN EXPRESSED IN A VARIETY OF GOVERNMENT AND INDUSTRY STUDIES, WHICH INDICATE THAT THE WORLD WILL BE FACED WITH AN ENERGY SUPPLY SHORTFALL, PERHAPS AS SOON AS THE EARLY 1980'S.

23. ONE MAJOR UNCERTAINTY AFFECTING THE PROJECTED WORLD DEMAND FOR OIL ARISES FROM ASSUMPTIONS REGARDING THE FUTURE ROLE OF THE SOVIET BLOC IN THE INTERNATIONAL OIL MARKET.

24. ANOTHER SOURCE OF UNCERTAINTY IS THE FUTURE INTENSITY OF ENERGY USE IN RELATION TO ECONOMIC ACTIVITY. SUCH

UNCERTAINTY IS COMPOUNDED BY THE DIFFICULTIES IN FORECASTING ECONOMIC ACTIVITY AND TRADE.

25. WITH RESPECT TO NEW TECHNOLOGIES ALMOST EVERYONE AGREES THAT IN THE IMMEDIATE TERM, NEW TECHNOLOGIES CANNOT BE EXPECTED TO MAKE ANY MEANINGFUL CONTRIBUTION IN REDUCING GROWTH IN WORLD DEMAND FOR OIL. THE UNCERTAINTY HERE REVOLVES AROUND THE 1980'S AND BEYOND. SIMPLY STATED, THERE ARE NO HISTORICAL MODELS OR RELIABLE FORECASTS UNCLASSIFIED

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REGARDING PROJECTED COMMERCIALIZATION OF VARIOUS NEW TECHNOLOGIES. THE LIGHT WATER REACTOR TECHNOLOGY IS PERHAPS THE ONLY EXCEPTION, ALTHOUGH IF WE REVIEW THE FORECASTS PREPARED IN THE MID-TO-LATE '60'S FOR NUCLEAR POWER, WE READILY SEE HOW REALITY CAN DISRUPT LINEAR EXTRAPOLATIONS.

26. ALSO IT IS DIFFICULT TO DETERMINE THE FUTURE OF OPEC PRODUCTION CAPACITY, AND THE FUTURE AVAILABILITY OF YET UNDISCOVERED OIL AND GAS RESOURCES, A LARGE PART OF WHICH LIES BEYOND THE BOUNDARIES OF THE HISTORIC EXPORTERS.

27. NOTWITHSTANDING THOSE UNCERTAINTIES, THERE IS A GROWING ACCEPTANCE THAT BY THE EARLY TO MID-1980'S, THE GROWTH IN DEMAND FOR OIL COULD OUTPACE A REASONABLE PROJECTION OF THE AVAILABILITY OF OIL SUPPLIES IN WORLD MARKETS. OIL PRICES COULD THEN RISE SHARPLY, INFLECTING SERIOUS DAMAGE TO WESTERN NATIONS, AND TO MOST DEVELOPING COUNTRIES, MOVING THESE ECONOMIES INTO RECESSION, AND--PERHAPS--ENGENDERING POLITICAL INSTABILITY.

28. THOSE WHO ARE CONFIDENT ABOUT THE AVAILABILITY OF OIL THROUGHOUT THE 1980'S IN SOME INSTANCES APPEAR TO BE FORECASTING A DIFFERENT SORT OF CRISIS, NAMELY THAT WORLD ECONOMIC ACTIVITY WILL NOT GROW FAST ENOUGH TO ABSORB THE AVAILABLE OIL SUPPLY. THE IMPLICATION HERE IS THAT WE WOULD BE FACED WITH AN ECONOMIC CRISIS RATHER THAN AN OIL OR ENERGY CRISIS: IN ANY CASE, IN THE EVENT OF ACUTE SOCIAL AND POLITICAL INSTABILITY, IT WOULD BE SOMEWHAT ACADEMIC WHETHER THIS RESULTED FROM HIGH ENERGY OR LOW ECONOMIC GROWTH.

29. IN SPITE OF THE VARIOUS UNCERTAINTIES I HAVE JUST ENUMERATED, MOST OF THE WORLD ENERGY PROJECTIONS SUGGEST ONE STRIKING CONCLUSION:

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- VARIATIONS IN DEMAND AND SUPPLY GROWTH RATES IN THE INDUSTRIALIZED WORLD--OUTSIDE THE UNITED STATES--CAN DELAY SLIGHTLY, BUT NOT BY MORE THAN A FEW YEARS, THE TIME BY WHICH THE WORLD'S PROJECTED OIL CAPACITY IS EXCEEDED BY WORLD DEMAND.

30. ONE OF THE PRINCIPAL PURPOSES OF THE PRESIDENT'S

NATIONAL ENERGY PLAN IS TO INSURE THAT THE U.S. WILL PLAY A RESPONSIBLE, LEADING ROLE IN MEETING THE CHALLENGES OF MAKING A TRANSITION TO RENEWABLE ENERGY TECHNOLOGY RESOURCES.

31. AT THIS JUNCTURE, CONSIDERING THE TIME THAT HAS ELAPSED SINCE THE PRESIDENT SUBMITTED THE NEP, I WISH I COULD ADVISE YOU THAT THE COMPROMISE ENCOMPASSING THE VITAL ELEMENT OF OUR 1977 PLAN HAS BEEN ENACTED. WE ARE CONFIDENT THAT THIS SESSION OF CONGRESS WILL INDEED PRODUCE A LEGISLATIVE PACKAGE WHICH MOVES US CONSIDERABLY AHEAD, BUT I WOULD HAVE TO SAY THAT EVEN UNDER THESE CIRCUMSTANCES, OUR POLICY PLANNING AND LEGISLATIVE RESPONSES ARE--AT BEST--JUST AT THE END OF THE BEGINNING OF A LONG PROCESS.

32. THANK YOU.

33. COMMENT: THE EMBASSY AND MR. HENNOCH MAY WISH TO ADJUST THE LENGTH OF THE ADDRESS AND/OR INCLUDE REMARKS RELATING TO SPECIAL BILATERAL ENERGY INTERESTS SUCH AS U.S. IMPORTS OF INDONESIAN OIL, THE US OFFER OF COOPERATION IN DEVELOPING ALTERNATIVE ENERGY RESOURCES, RURAL ELECTRIFICATION, ETC. THE EMBASSY COULD DRAW ON MONDALE BRIEFING PAPERS FOR THESE ITEMS.

34. FURTHER GUIDANCE FOR POSSIBLE Q'S AND A'S ON ISSUES
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